ANNUAL REPORT

1 9 8 9

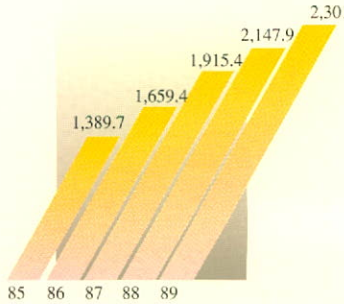
METRO-RICHELIEU

TABLE OF CONTENTS

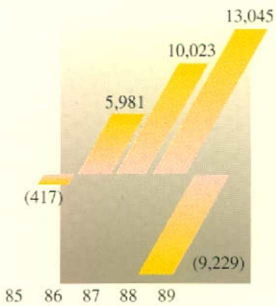
HIGHLIGHTS

	1989	1988	Δ
OPERATING RESULTS ($ 000)			
Sales	2,301,096	2,147,921	7%
Earnings from operations	68,083	66,369	3%
Earnings from continuing operations	7,612	13,950	-45%
Earnings before extraordinary items	2,098	13,045	-84%
Net earnings (net loss)	(9,229)	13,045	-171%
FINANCIAL STRUCTURE ($ 000)			
Working capital	22,151	32,026	-31%
Total assets	556,135	562,818	-1%
Long-term debt	200,554	191,684	5%
Shareholders' equity	150,435	159,263	-6%
PER COMMON SHARE			
Earnings (loss)			
continuing operations	$0.28	$ 0.69	-59%
before extraordinary items	($0.03)	$ 0.63	-105%
after extraordinary items	($0.67)	$ 0.63	-206%
Book value	$6.58	$ 7.35	-10%
FINANCIAL RATIOS			
Working capital	1.11	1.16	
Earnings/sales			
continuing operations	0.33%	0.65%	
before extraordinary items	0.09%	0.61%	
after extraordinary items	(0.40%)	0.61%	
Long-term debt/shareholders' equity	1.33	1.20	
Return on shareholders' equity (Earnings from continuing operations)	3.9%	10.2%	

Sales
($ 000,000)



Net Earnings
($000)



After three consecutive years of net income growth, Métro-Richelieu recorded a net loss of $9.2 million in the 1988-89 fiscal year.

This situation is chiefly attributable to the poor performance of our drugstore franchising operations. The pressure on profit margins in this business sector, resulting from an overcrowded marketplace, forced us to absorb operating losses of almost $4 million during the year and prompted our decision to withdraw from this sector. In addition to these operating losses, we sustained a loss of $8.0 million on the disposal of our investments.

Our food sector, on the other hand, has a record of success, despite some difficulties such as a $6.1 million loss before income taxes on the sale of certain corporate stores. Furthermore, although our subsidiary La Ferme Carnaval inc. still holds the lead among Québec superstores, and has consolidated that position by opening a fourteenth Super Carnaval store, its sales have declined slightly under pressure of increased competition.

Finally, a sixteen-week labour dispute paralysed certain operations of our Éconogros division in the Québec City region, resulting in lost customers and sales.

During the year, our quarterly results allowed us to pinpoint these problems and we lost no time in taking strong corrective action in order to recover our profitability as quickly as possible.

First, after carrying out an in-depth analysis of the current state of the drugstore business, we decided to dispose of our franchising operations gradually, in view of the time and investment required to make them profitable. However, growth prospects for distribution of pharmaceuticals and health and beauty products remain attractive. Accordingly, we have decided to maintain our presence in this sector, consolidating our traditional role as a wholesaler and acquiring the means to improve the efficiency of our distribution operations. In the final analysis, increased volume is the key to profitability in both the drugstore and food businesses.

In the food sector, once we had identified the reasons for the declining volume of our subsidiary La Ferme Carnaval inc., we developed a three-year plan involving investments of approximately $11 million in order to upgrade Super Carnaval's marketing strategy and maintain its leadership of this market. Initial results following implementation of Phase 1 of the plan already indicate an improvement in sales volumes.

On a broader front, we have continued to develop a range of programs to support the performance of our various food banners and increase our volume, in particular by creating concepts and programs to satisfy consumers' growing demands. For example, a series of regional meetings in recent months have enabled us to understand the retailers' needs more clearly so that we can offer both retailers and customers services that are tailored to their requirements, thus keeping our banners in the forefront throughout Québec. Let us not forget that our growth is due in large part to the reputation for excellence associated with the Métro-Richelieu name.

We have also invested heavily in programs to maintain our corporate stores. However, in keeping with our goal of operating these stores on a temporary basis only, we have considerably reduced the number of corporate stores from 18 at the beginning of the year to 9 at year-end.

Reassessment of our strategy, which has led us to focus on our core business of whole-saling, should allow us to return to a growth rate comparable with previous years. Moreover, on closer analysis, our results indicate that the food wholesaling operations have continued to grow, posting a 6.5% increase in sales.

In the aggregate, our Company recorded a net loss of $9.2 million for the year. However, by excluding the non-recurrent transactions relating to the corporate stores and setting aside the amounts relating to operations discontinued during the year, it is clear that the continuing business sectors, which generate most of our earnings, produced a profit comparable with that of last year.

Nonetheless, the situation will continue to be difficult even for our food wholesaling business because of the increasing marketing and distributing costs we incur in a context of a saturated market, fierce competition and a large and sparsely-populated territory, resulting in a decline in our operating profit. In a saturated market, we must continue to pay special attention to our operating costs so that they do not outstrip our volume.

Consequently, we must pursue our rationalization program and continue managing our resources very prudently to keep costs as low as possible. We must also maintain our efforts to increase productivity and efficiency.

In this regard, we proceeded during the year to reorganize our business in such a way as to improve our performance by integrating our operations more closely and making the best use of our managers' expertise. For example, to meet the specific needs of retailers in Eastern Québec, our regional managers have been given added responsibilities to improve communication with this important customer group.

As for productivity, we are delighted with the substantial gains which continue to be made, particularly in our operating divisions, principally as a result of our employees' cooperation and of more flexible working hours.

With respect to human resources, we have continued the efforts already initiated in order to further develop management skills and foster an atmosphere of productivity. A training program for over 500 managers, an employee counselling program, introduced recently, and new management policies have provided our managers with the techniques to contend with today's corporate reality.

Having completed this process, and after disposing of the operating sector which depressed our earnings the most, our organization is poised to move forward again. Our human resources are well trained and highly motivated. Over the years, we have demonstrated our ability to respond to constantly changing patterns of consumption by being attentive to consumer concerns and by developing new ways of distributing consumer products. All of these are critical to the success of any company whose business consists in satisfying consumer needs and expectations.

At this point, we must define our long-term strategy in a broader context. The current low population growth, especially in Québec, limits our ability to expand. Market conditions also mean that it is becoming more and more difficult to cut our operating expenses significantly.

Globalization of the economy and liberalization of trade, with the United States in particular, mean that, in the short term, the already strong competition that squeezes our margins and forces us to devote more and more resources to simply maintaining our positions will intensify even more. We can already predict major upheavals in the Canadian food industry among suppliers, manufacturers and distributors and we can also expect foreign businesses to exert growing pressure on our industry as a whole.

It will be increasingly difficult to maintain the status quo in such conditions. Thus, in order to ensure our Company's growth, we will have to acquire the means of generating additional volume, either by developing new markets or by entering into strategic alliances which will allow us to expand or diversify our customer base. In view of the urgency of the situation, we must develop innovative approaches to allow us to cut across the narrow lines of competition that frequently pit companies against each other and to permit us as a society to take on the fundamental challenges that await us in the 1990s.

More than ever before, we will need adequate financial resources in order to seize the opportunities that arise. Our financial position has evolved considerably in the last five years, but in order to maintain our growth in changing economic conditions, we must examine ways of improving our financial structure and obtaining the funding we require to make the most of our strengths.

These assets, such as the entrepreneurship and know-how of our retailers as well as the professionalism of our human resources, are without a doubt the keys to our success. Furthermore, we can now benefit from the expertise of two additional Directors on our Board, namely, Messrs. Claude Castonguay and Michel Nadeau.

We wish to express our thanks to all those who, day after day, put their talents and energies at the service of the Company: the members of the Board, the retailers and their employees, as well as the work force of Métro-Richelieu and its subsidiaries totalling some 6,000 employees. If each of us strives to satisfy the consumer, we will be well prepared to face the challenges that await us.

Marcel R. Guertin

Marcel R. Guertin
Chairman of the Board

Jacques L. Maltais

Jacques L. Maltais
President and Chief Executive Officer

FOOD WHOLESALING OPERATIONS
ÉPICIERS UNIS MÉTRO-RICHELIEU INC.

Food Distribution: Métro-Richelieu's Primary Mission

Épiciers Unis Métro-Richelieu inc. (EUMR), a wholly-owned subsidiary of Métro-Richelieu, is the primary reason for the existence of the Company, accounting for over 70% of Métro-Richelieu's sales. Once again this year, EUMR's sales have risen by 6.5% and now stand at almost $1.8 billion in a market which attained full maturity several years ago. The Company's ability to adapt rapidly to a constantly changing environment accounts in large measure for this performance.

All sectors: grocery products, meats and frozen products, produce, as well as fish and fresh seafood, contributed to these results. Concurrently, rationalization has produced further productivity gains and has kept cost increases below the inflation rate.

Pursuit of the retail outlet modernization program and introduction of new in-store specialty boutiques have helped to improve quality, variety and customer service, thereby increasing the sales of the affiliated retailers and EUMR, the wholesaler.

On the labour relations front, collective bargaining with several groups of EUMR employees commenced at the end of the 1988-89 fiscal year and will continue during the first quarter of the coming year.

Grocery Products: Greater Efficiency

EUMR serves approximately 500 Métro and Marché Richelieu stores throughout Québec, as well as several independent stores, from its three distribution centres in Montréal, Québec City and Mont-Joli.

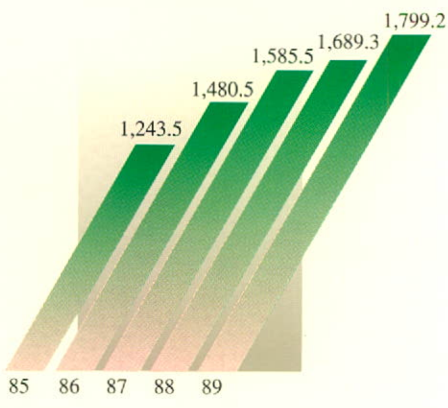
The grocery division has always contributed most to the sales volume of EUMR. This year, grocery sales increased by 6.2% compared with the previous year. However, for some years now, changes in consumption patterns and declining population growth have meant very slow change for this sector of the food industry.

EUMR has been aware of this phenomenon for some time and has concentrated on cutting operating costs in order to improve its efficiency and productivity.

Last year, we introduced a new "management by category" program for warehouse inventories which is already proving to be extremely profitable. The program provides extensive financial information on every product, without regard to suppliers, and allows us to keep warehouse inventories to a minimum. Thus, turnover has increased significantly and inventories have dropped correspondingly.

EUMR
Sales*
($ 000,000)

Groceries, produce, meats and frozen products, fish and seafood



* before inter-sectorial eliminations

Produce: Expanding

In recent years, EUMR has successfully expanded its fresh produce sector. Retailers are sensitive to the increasing demand for fresh product by Québec consumers and much more store space is devoted to the display of a wider variety of fruits and vegetables.

This year, programs to centralize purchasing and rationalize operations at EUMR's three produce warehouses in Montréal, Québec City and Ottawa were completed with success.

In the course of the financial year, EUMR's sales in this sector rose by 4.5%, despite a drop in the average market price of produce.

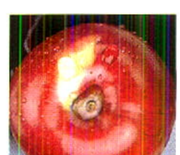
Meat and Frozen Products: New Markets

The Boeuf Mérite division of EUMR distributes fresh and processed meat as well as frozen products to its affiliated retailers.

Boeuf Mérite can count on the expertise of specialists who have been employed by the Company for many years and who bring high professional standards to their work. The quality of this division's product, moreover, is widely acknowledged.

Despite the fact that red meats are becoming less popular in Canada, Boeuf Mérite succeeded in increasing its sales by 7.1% in 1989 and improving the profitability of its operations, as a result of productivity gains and new product and market development.

For instance, the new institutional cuts department provides Boeuf Mérite's distributors with the capacity to serve the hotel, restaurant and institutional markets which are major consumers of these products. In a very short time, there has been a large increase in the division's total beef sales. This major new market should allow Boeuf Mérite to attenuate the effects



of the traditional cyclical slowdowns observed in retail sales.

Boeuf Mérite also distributes house-brand deep-frozen dough to affiliated stores. These products are extremely popular among Métro and Marché Richelieu retailers and the increased demand has contributed to the improved performance of the Boeuf Mérite division this year.

Meanwhile, the introduction of a new work schedule of four consecutive ten-hour days has contributed to better customer service, particularly on the busiest shopping days.

Pêcheries Atlantiques: Rising Sales

The Pêcheries Atlantiques division operates fish and seafood distribution centres in Montréal and Québec City as well as a recently renovated retail store at the Marché Central in Montréal.

Following a difficult year in 1988 as a result of the "mussel crisis" and integration of its operations with those of Métro-Richelieu, Pêcheries Atlantiques has now become profitable.

Until its acquisition by Métro-Richelieu in 1987, Pêcheries Atlantiques concentrated on the restaurant and institutional markets. Since then, the division has started supplying fresh seafood to Métro and Marché Richelieu retailers, a strategy which accounted in large measure for a sales increase of about 27.5% in 1989. This exceptional performance is very promising.

To support its growth, the division's internal management systems have been reorganized and an advisory service has been set up for the marketing of fresh fish to assist retailers with this new aspect of their business. In addition, the range of products has been extended and weekly specials offered to consumers now regularly include fish and fresh seafood.

During the year, Pêcheries Atlantiques moved to its new location in East Montréal.



In keeping with the Métro-Richelieu philosophy, most of the approximately 500 Métro and Marché Richelieu food stores are owned by independent merchants. This form of organization has proved effective as it allows both the independent owners and the wholesaler to apply their special skills to managing their respective businesses.

However, in today's world, retailing and wholesaling operations in the food distribution industry must be closely meshed. Thus, most market studies, marketing programs and marketing and advertising services are provided by EUMR on behalf of its affiliated merchants. This approach guarantees the greatest possible impact and benefits all the retailers.

In fact, sales of Métro and Marché Richelieu stores grew much faster than the inflation rate in the past fiscal year, and the profitability of the retailing operations has generally followed a similar trend in a traditionally low-growth market.

This outstanding performance may be attributed to the following innovations.

In-Store Specialty Boutiques

In recent years, Québec consumers have been paying much greater attention to the quality of their food. Métro and Marché Richelieu merchants have responded quickly to the new demands by offering their customers a wider range of healthy and nutritious products.

For example, many specialized departments have been created in the stores, for example, La Marinière, offering fresh fish; La Miche, featuring products baked on the premises; Les Trouvailles du Spécialiste offering bulk foods; Le Délissime for cheese and processed meats; La Cuisine Express for prepared foods; Aux Petits Soins, which offers personal care items.

A large number of retailers have adopted this promising formula which, besides meeting a real consumer need, allows retailers to increase their gross profit margins.

"Métro 5 étoiles": A Successful Formula

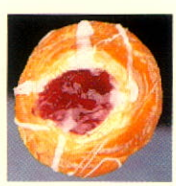
Since 1985, in order to respond even better to consumer needs, a large number of owners have undertaken major renovations to their stores as part of the Corvée-rénovations program introduced by EUMR.

To date, approximately 112 Métro merchants have made major changes which qualify them to display the "Métro 5 étoiles" banner, a new specialized supermarket concept. About 40 more retailers are expected to follow suit in coming months.

In the last four years, the retailers have invested almost $75 million in this program, including $24 million in the last year alone.

These structural, aesthetic and organizational changes have contributed to increasing wholesale and retail sales.

For its part, Équipement Mérite, which advises retailers on store layouts, continues to meet with success in its operations.



Promoting Excellence

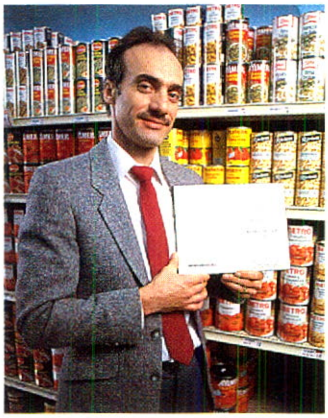
In order to continue encouraging its affiliated merchants in their efforts to improve customer service standards and store management, EUMR has created two new contests for Métro retailers this year: the "Rayon d'or" (Golden Grocery Department) for the grocery products sector, and the "Magasin d'or" (Golden Store) for the store of the year in Québec.

These awards complement the existing awards, i.e., the "Couperet d'or" (Golden Cleaver) in the meat sector and the "Rosée d'or" (Golden Dew) in the produce sector. In recognition of the special contribution of its long-standing affiliates to the success of the Company, EUMR has also created a loyalty award.

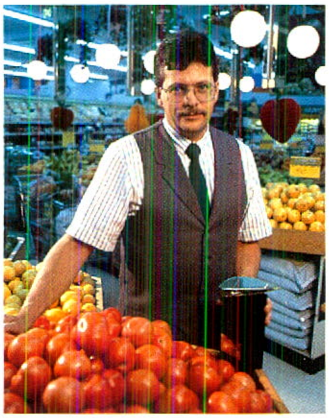
By promoting healthy competition among the specialized personnel, all these programs and contests help to ensure that customer services are constantly improved and store traffic is increased.

Gabriel Verreault
Golden Store
Alimentation Verreault, Chicoutimi

Christian and Daniel Verreault
Golden Cleaver
Alimentation Verreault, La Baie



Richard Larocque
Golden Grocery Department
Marché Élite, St-Jérôme



Marc Beauregard
Golden Dew
Supermarché Roland et Frères, Ste-Agathe

Optimizing Space Management

Another EUMR initiative consists of a detailed analysis of shelf turnover in order to find the most profitable arrangement for each store.

The Spaceman-Spacemax computerized system allows retailers to visualize the proposed product layout before it is implemented, taking into account actual shapes and colours. This relatively new technique avoids unnecessary handling of merchandise, saves considerable time and promotes profitable management of shelf space.

During the past year, EUMR's specialists have prepared several thousand partial space management layouts and a few hundred complete space management layouts for the affiliates, allowing them to find the ideal spot on the shelf for each product, to reduce inventories substantially and to increase profit margins. These space management layouts are updated periodically to take into account changing consumption patterns and new products marketed by manufacturers.

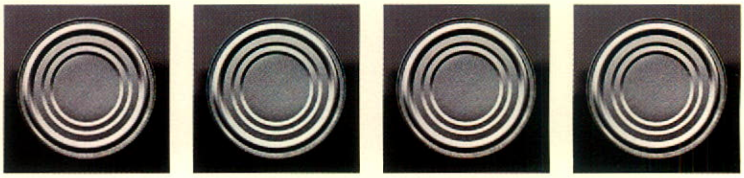
Keeping in Touch with Consumers

This year, EUMR has increased its efforts to help retailers increase store traffic and customer loyalty. Food preparation information sessions, tasting programs and scores of new and easy recipes are offered to consumers.

Métro-Richelieu also offers dietary advice to consumers and affiliated merchants. A video emphasizing the importance of healthy eating habits is available from participating affiliated Métro stores for anyone who requests it.

EUMR and its affiliated merchants are highly aware of the contribution to the community of new Canadians from different countries and make every effort to meet the specific requirements of such customers and to welcome them into the Métro-Richelieu family by offering products to their taste.

Métro-Richelieu has proved its determination to remain in the forefront of the Québec food industry by the variety and quality of the services it offers and by the excellent reputation of its various banners among consumers.



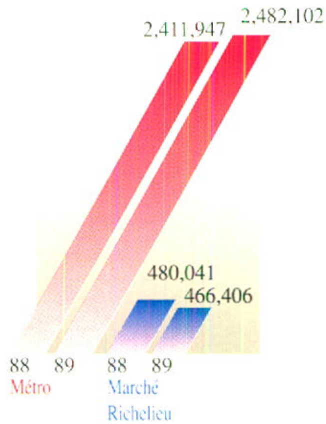
A Reputation for Dynamism

The constant efforts to rationalize and specialize the retail banners over the last few years largely explain the continued growth both of the affiliated retailers and EUMR. These results have created even greater loyalty towards EUMR among independent merchants and have allowed EUMR to provide more efficient service in return.

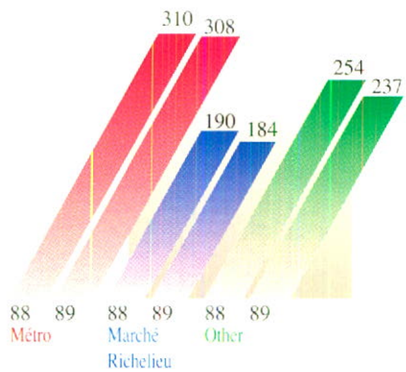
This year, the Métro banner has expanded in Northwestern Québec and Northern Ontario. In addition, efforts have been made to develop the small store banners, especially in Montréal where 14 new merchants have joined the AMI banner. There are now 70 neighbourhood retailers under this banner province-wide, while 13 independent convenience stores operate under the GEM banner.

Thus, year after year, EUMR strengthens its position as a leader in every segment of the Québec food industry.

EUMR
Total Area (Sq. Ft.)



EUMR
Number of Stores



EUMR's Food Services Sector consists of Éconogros' operations in Montréal and Québec City, as well as Distagro and Service Alimentaire de Québec in Québec City. This sector specializes in distribution to hotels, restaurants, institutions and small supermarkets.

The food services market is without a doubt one of the most competitive sectors of the food industry today. In recent years significant rationalization has been taking place in this sector and is expected to continue.

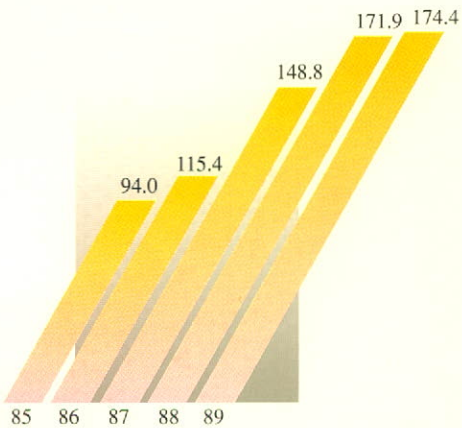
With the exception of its Québec City branch whose operations were affected by a sixteen-week labour dispute, 1989 was a good year for the Éconogros division. In the coming months, the Québec City location will therefore be concentrating its efforts on rebuilding its customer base and developing its distribution operations to small supermarkets in the region.

The Montréal branch of Éconogros has succeeded in improving its efficiency as well as its productivity and profitability. Éconogros' employees in Montréal accepted a new three-year labour agreement prior to the expiry of their previous agreement. Thus, Éconogros will be in a better position to take on the competition and improve its earnings.

During the past year, Éconogros' management has made an effort to rationalize its operations, to increase the number of its regular clients and to develop small store banners, especially in the Montréal area.

Meanwhile, Distagro and Service Alimentaire de Québec, also located in Québec City, have started up operations at their new warehouse in the provincial capital.

Food Services Sector Sales Growth* ($000,000)



* Before inter-sectorial eliminations

La Ferme Carnaval inc.

In 1987, Métro-Richelieu purchased La Ferme Carnaval inc. (La Ferme Carnaval), which operates fourteen superstores in Québec under the Super Carnaval banner.

Superstores have experienced extraordinary growth in the past five years. The total number of square feet given over to this type of business by the various food chains has increased fourteenfold and competition has increased considerably.

During the past year, earnings of La Ferme Carnaval were lower than expected, with sales increasing from $321 million to $325 million. Super Carnaval's operations account for approximately $150 million of the sales volume of Métro-Richelieu's various wholesaling divisions.

In order to increase the sales volume and reduce the break-even point of the stores, Métro-Richelieu management has introduced a series of important measures. The superstore concept of the Super Carnaval stores, unchanged since its inception, has been upgraded and modified to meet the needs of consumers in the 1990s, who, after several years of unbroken economic growth, are demanding a wider range of specialized products and services.

Modernization involved some structural changes to the Saint-Léonard and Longueuil stores, as well as a new decor, a new product presentation, a redesigned logo and publication of a new circular, all part of a completely transformed marketing strategy.

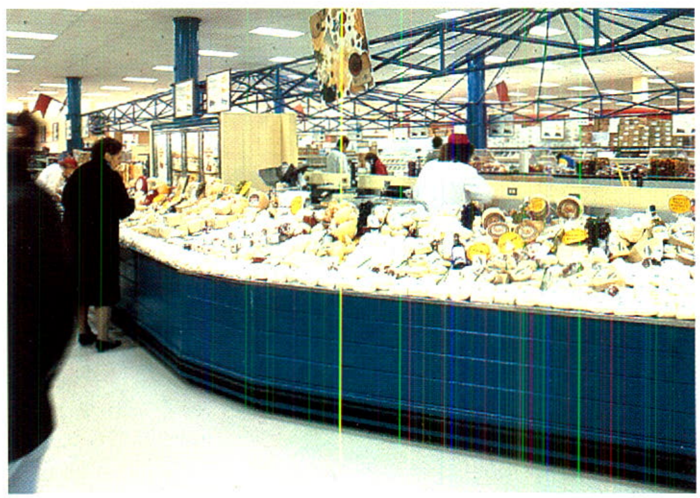
Latterly, a wide range of multipack products in so-called institutional formats has been added. Demand for these family-sized packagings is growing on retail markets. Moreover, Super Carnaval gives special attention to the demand for specialized products by members of the ethnic communities.

As regards labour relations, the collective agreements of five of the fourteen Super Carnaval stores expired last year ; three more will expire in 1989-90.

Corporate Stores

Métro-Richelieu operates certain corporate retail stores under the Métro banner. Numbers vary from year to year and even from month to month. Management's policy is to hold a few stores, the rest being intended for resale to independent owners.

During the past year, Métro-Richelieu cut the number of its corporate stores from 18 to 9. As a result, annual sales totalled $104 million compared with $163 million in 1988.



Super Carnaval

Super Carnaval – Bulk Section

The Québec pharmaceuticals and health and beauty products market is valued at almost $2 billion in annual retail sales, while the wholesale market is valued at approximately half as much.

This market has been going through serious restructuring for the last few years, both with respect to product distribution and retail sales.

McMahon-Essaim Inc.
GROSSISTE EN PRODUITS PHARMACEUTIQUES

Three years ago, when confronted with a potential decline of food markets in Québec, Métro-Richelieu decided to take advantage of industry restructuring to purchase a distributor, McMahon-Essaim inc. (McMahon-Essaim).

Subsequently, Métro-Richelieu purchased the franchisers Les Entreprises Gilles Cloutier inc. and W. Brunet et Cie ltée, as well as six Pharmaprix drugstores located near Super Carnaval stores.

However, the earnings of the Cloutier drugstores (Pharmaprix Carnaval) turned out to be much lower than expected, thereby affecting the profitability of McMahon-Essaim and Métro-Richelieu.

Faced with this situation, Métro-Richelieu management promptly responded with measures to improve the profitability of its pharmaceutical sector. Thus, a new management team was put in place at McMahon-Essaim and Métro-Richelieu decided to pull out of the Cloutier drugstore franchising operations, assuming an operating loss of $3.9 million and an extraordinary loss of $8.0 million on the sale of the drugstores in the fiscal year ended September 30, 1989.

Métro-Richelieu intends to pursue rationalization and consolidation of its other retail operations, with emphasis on the independent merchant formula, and to focus its efforts on strengthening the primary role of McMahon-Essaim as a wholesaler and distributor of pharmaceuticals and health and beauty products.

Pharmaceutical Sector	Number of establishments under various banners as at September 30, 1989	Number of establishments under various banners as at September 24, 1988
Essaim drugstores	113	114
Cloutier drugstores	22	24
Brunet drugstores	17	14
Clini + drugstores	37	32

Retail Banners

McMahon-Essaim supplies 113 Essaim drugstores, 17 Brunet drugstores and, since last year, over 37 Clini +, a new banner for independent pharmacists working in medical clinics. McMahon-Essaim has also just become the exclusive supplier of Cumberland drugstores.

In 1989, sales of McMahon-Essaim, excluding sales relating to the operations of the Cloutier banner, rose 22% over the previous year, to $100 million. However, the operating losses of the Cloutier drugstores, which were assumed by McMahon-Essaim, and the costs incurred to transfer the operations to the new Montréal warehouse exercised strong downward pressure on the subsidiary's profitability.

New measures will be taken in the coming months to improve financial performance in 1990.

In future, McMahon-Essaim plans to devote its energies to developing its pharmaceuticals and health and beauty products distribution and marketing operations in order to offer the most efficient option to Québec pharmacists.

Complementary Interests

Métro-Richelieu is also a co-owner or minority shareholder of several companies which are recognized for their dynamism and expertise in areas that complement its own operations.

Métro-Richelieu owns the André Lalonde Sports inc. banner (André Lalonde Sports) which is displayed by thirty-nine franchises and corporate stores selling top-of-the-line and medium-quality sports equipment.

The management of André Lalonde Sports has started expanding its range of products in order to counteract the effects of unpredictable weather conditions and thus reduce the cyclical fluctuation in sales.

Métro-Richelieu owns a 50% interest in Restaurants Giorgio (Amérique) ltée (Giorgio Restaurants).

After the successful integration of the operations of Les Restaurants Pastelli inc. with those of Giorgio Restaurants, sales increased this year and the Company has regained its profitability.

In addition to making a direct contribution to Métro-Richelieu's profits, this investment also contributes to the sales of the Éconogros food service division.

Métro-Richelieu owns 20% of the share capital of the public company Alimentation Couche-Tard inc. (Alimentation Couche-Tard), franchiser of the second largest convenience store chain in Québec.

The sales of some 150 affiliates of Alimentation Couche-Tard contribute to the operations of the Éconogros division of Métro-Richelieu, which has an exclusive contract to supply the Couche-Tard and Sept-Jours convenience stores.

Laverdure

Gestion de Textile Laverdure inc. (Gestion de Textile Laverdure) is a company specializing in the rental and cleaning of linens and uniforms for commercial and industrial companies. In 1987, Métro-Richelieu purchased a 40% interest in the share capital of Gestion de Textile Laverdure, which allows it to offer a professional service to its affiliated retailers.

This year, Gestion de Textile Laverdure has modernized its Montréal plant in order to respond more effectively to the demands of its customers.

In the first quarter of the fiscal year, Métro-Richelieu joined other Québec companies to form Les Nordiques de Québec 1988, Société en commandite, the new owner of the professional hockey team which holds a National Hockey League franchise in Québec City. This investment should provide promotional benefits to Métro-Richelieu starting this year.

Délicana Nord-Ouest inc.

Métro-Richelieu holds a 50% interest in Délicana Nord-Ouest inc., a company engaged in meat processing and distribution in Northwestern Québec and Northern Ontario. This investment, which was acquired in 1987, provides a regional outlet for Boeuf Mérite, the Métro-Richelieu meat division.

Complementary Operations

	Métro-Richelieu's interest	Number of establishments under various banners as at September 30, 1989	Number of establishments under various banners as at September 24, 1988
André Lalonde Sports inc.	100%	39	31
Restaurants Giorgio (Amérique) ltée	50%	30	35
Alimentation Couche-Tard inc.	20%	150	132
Gestion de Textile Laverdure inc.	40%	—	—
Les Nordiques de Québec 1988, Société en commandite	18%	—	—
Délicana Nord-Ouest inc.	50%	—	—

Métro-Richelieu: A Good Corporate Citizen

Métro-Richelieu has always cared about its primary goal, which is to offer affiliated retailers and Québec consumers select products of the highest quality at the best possible price.

However, Métro-Richelieu wishes to complement this goal, set over forty years ago, by making a tangible contribution to social and cultural organizations and activities whose impact on the community goes beyond mere commercial interests.

That is why, in addition to sponsoring various groups or popular events such as the Québec Nordiques hockey team, the television series Lance et Compte III, the television program Visa Santé on Radio Québec, or the Métrostar Gala which will be presented in the course of the next five years on the TVA network, Métro-Richelieu provides tangible support for the remarkable work of several organizations such as Centraide, the Centre Immaculée-Conception, Leucan and the Fondation Lucie-Bruneau.

Métro-Richelieu also sponsors the Matins symphoniques Métro of the MSO as well as the Arista award, organized by the Jeune Chambre de commerce de Montréal. It participated actively in the contest honouring the one hundredth anniversary of the Ordre du mérite agricole sponsored by the ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec and it awards scholarships to the best of Québec's youth for advanced training in sports, entertainment and business.

Recently, the Chambre de commerce de l'Est du Grand Montréal awarded the Company a prize for excellence in recognition of its exceptional contribution to the development of the Chambre and the east end of the island of Montréal.

By becoming actively involved in the community, Métro-Richelieu and its employees strive to enhance the quality of life for all citizens.

leucan

VISA-SANTÉ

L'ORDRE DU MÉRITE AGRICOLE DU QUÉBEC

1989

100 ans de savoir-faire en agriculture

Sales

Sales ($000)			
Sectors	1989 (53 weeks)	1988 (52 weeks)	Δ %
Food:			
- wholesaling	1,799,157	1,689,253	6.5
- food services	174,396	171,876	1.5
- retailing	429,567	483,424	(11.1)
Pharmaceutical	100,105	82,276	21.7
Other sectors	11,325	12,385	(8.6)
	2,514,550	**2,439,214**	
Inter-sectorial eliminations	(213,454)	(291,293)	
	2,301,096	**2,147,921**	**7.1**

Consolidated sales for the year were $2,301,096,000, compared with $2,147,921,000 for the preceding year, an increase of 7.1%. The year ended September 30, 1989 reflects 53 weeks of operations compared with 52 weeks for the year ended September 24, 1988. Based on an identical number of weeks of operations, the sales increase is approximately 5.1%.

Food wholesaling operations, which account for 72% of the Company's total volume, rose by 6.5%, an increase attributable in large measure to the meats, frozen products and fish sector, which recorded an 8% gain.

Sales of the food services sector were $174,396,000 compared with $171,876,000 in 1988, representing a 1.5% gain. It should be noted, however, that the results for the year were affected by a sixteen-week labour dispute at Éconogros in Québec City.

In the food retailing sector a fourteenth Super Carnaval store was inaugurated in December 1988. Super Carnaval accounts for $150,000,000 of the Company's food wholesaling sales. Super Carnaval sales rose from $320,435,000 to $325,111,000, up 1.5%. These results have prompted the Company to implement a new marketing strategy to increase sales volume, as well as a program to modernize all the stores, at a total cost of approximately $11,000,000. Two stores have already been renovated. The Company also disposed of 9 of its 18 corporate stores, which explains the drop in sales from $162,989,000 in 1988 to $104,456,000 in 1989. However, the stores continue to purchase goods and services from the Company.

Sales of the pharmaceutical sector increased from $82,276,000 to $100,105,000, up 21.7%. Sales growth is attributable to the conclusion of agreements with new customers and the contribution for a full year of the Brunet pharmacies. These figures exclude sales to the pharmacies operating under the Cloutier banner, representing $47,580,000 in 1989 and $39,103,000 in 1988, since these operations were discontinued by the Company during the year.

Sales of André Lalonde Sports inc. have not been consolidated in view of the Company's decision to dispose of this operating sector. Sales amounted to $19,378,000 in 1989 compared with $13,228,000 in 1988.

Earnings from Operations ($000)

Sectors	1989 (53 weeks)		1988 (52 weeks)	
	$000	% sales	$000	% sales
Food	108,777	4.53	104,902	4.47
Pharmaceutical	615	0.61	1,030	1.25
Others sectors	4,464	39.42	2,791	22.54
Common costs and inter-sectorial eliminations	(45,773)		(42,354)	
	68,083	**2.96**	**66,369**	**3.09**

Earnings from Operations

Earnings from operations stand at $68,083,000 in 1989 compared with $66,369,000 in 1988. As a percentage of sales, earnings from operations fell from 3.09% in 1988 to 2.96% in 1989. This decline was principally due to the Super Carnaval food retailing banner which operates in a market characterized by growing competition in recent years, thus accentuating the downward pressure on profits already exerted by the pharmaceutical sector, which experienced some difficulties, in addition to discontinuing certain operations.

Financing, Depreciation and Amortization, Gain/Loss on Disposal of Stores and Income Taxes

Financial expenses rose from $23,109,000 (1.08% of sales) in 1988 to $26,807,000 (1.16% of sales) in 1989. The difference resulted from an increase in financing costs and greater borrowing. The average cost of financing, net of financing revenues and interest capitalized to fixed assets, was 10.59% in 1989, compared with 9.61% in 1988. This increase in financial expenses has meant that the interest coverage ratio computed on the basis of earnings from continuing operations dropped from 2.07 in 1988 to 1.45 in 1989. In November 1989, the Company entered into a second swap facilities agreement at a rate of 10.73% on an amount of $35,000,000 expiring in 1994. Taking this transaction into account, 83% of the long-term debt is at fixed rates.

Depreciation and amortization amounted to $23,001,000 (1.00% of sales) in 1989, compared with $21,716,000 (1.01% of sales) in 1988.

During the year, the Company disposed of corporate stores and made provision for losses on possible disposal of certain other stores, for a total loss of $6,117,000 ($4,135,000 after tax) compared with a gain of $3,298,000 ($2,316,000 after tax) in 1988.

During the year, statutory income tax rates dropped from 40.62% to 34.84%. In view of this decrease, income taxes amount to $4,546,000 for 1989, compared with $10,892,000 for the previous year.

QUARTERLY RESULTS

Year ended September 30, 1989	1st quarter (12 weeks)	2nd quarter (12 weeks)	3rd quarter (16 weeks)	4th quarter (13 weeks)	YEAR
Sales ($000)	530,387	494,826	709,602	566,281	2,301,096
Earnings from continuing					
operations ($000)	3,446	2,002	5,562	(3,398)	7,612
Earnings before extraordinary items ($000)	3,015	1,885	2,278	(5,080)	2,098
Net earnings ($000)	3,015	1,885	2,278	(16,407)	(9,229)
Earnings per share					
continuing operations	$0.16	$0.08	$0.27	($0.23)	$0.28
before extraordinary items	$0.14	$0.07	$0.09	($0.33)	($0.03)
after extraordinary items	$0.14	$0.07	$0.09	($0.97)	($0.67)
Quoted market price:					
high	$5.25	$5 1/8	$4.75	$4.50	$5.25
low	$4.50	$4.50	$3.80	$3.85	$3.80
Volume of transactions	382,673	644,420	932,232	692,490	2,651,815

Year ended September 24, 1988	1st quarter (12 weeks)	2nd quarter (12 weeks)	3rd quarter (16 weeks)	4th quarter (12 weeks)	YEAR
Sales ($000)	510,461	476,975	667,840	492,645	2,147,921
Earnings from continuing					
operations ($000)	3,161	3,541	4,770	2,478	13,950
Net earnings($000)	3,155	4,352	3,824	1,714	13,045
Earnings per share:					
continuing operations	$0.16	$0.18	$0.24	$0.11	$0.69
net earnings	$0.15	$0.24	$0.18	$0.06	$0.63
Quoted market price:					
high	$8 7/8	$6.25	$7.00	$5 7/8	$8 7/8
low	$5.00	$5.00	$5.25	$4.60	$4.60
Volume of transactions	685,985	445,653	736,777	454,510	2,322,925

Net Earnings

On August 1, 1989, the Company decided to dispose of the Cloutier drugstore franchising operations. Accordingly, the results of these operations for the period from September 25, 1988 to July 31, 1989 are presented separately on a comparative basis under the item "losses of discontinued operations" and show a net loss of $3,925,000 in 1989 and $243,000 in 1988. Results since August 1, 1989 are recorded as extraordinary items, amounting to an additional net loss of $7,987,000. Furthermore, the Company has decided to put an end to its operations in the sports sector and the results of the sector, amounting to $1,589,000 in 1989 and $662,000 in 1988, are also included in "losses of discontinued operations". A provision for an additional loss in the amount of $3,340,000 has been included in extraordinary items.

Earnings from continuing operations for the year ended September 30, 1989 are $7,612,000, representing 0.33% of sales and $0.28 per share, compared with $13,950,000 for the preceding year, or 0.65% of sales and $0.69 per share. The drop in earnings is attributable in part to pretax losses of $6,117,000 ($4,135,000 after tax) as a result of the sale of corporate stores in the 1989 fiscal year, against a pretax gain of $3,298,000 ($2,316,000 after tax) recorded in the previous year. Earnings adjusted to exclude the effect of the gains and losses arising on sale of the stores are $11,747,000, corresponding to 0.51% of sales or $0.52 per share for the 1989 year, compared with earnings of $11,634,000, representing 0.54% of sales or $0.55 per share for the 1988 year.

Earnings before extraordinary items, which include losses from discontinued operations, amount to $2,098,000 or 0.09% of sales and ($0.03) per share for the year ended September 30, 1989, compared with $13,045,000 or 0.61% of sales and $0.63 per share for the previous year. In 1989, a loss after extraordinary items of $9,229,000 or ($0.67) per share was incurred, compared with net earnings of $13,045,000 or $0.63 per share in 1988.

Capital Expenditures

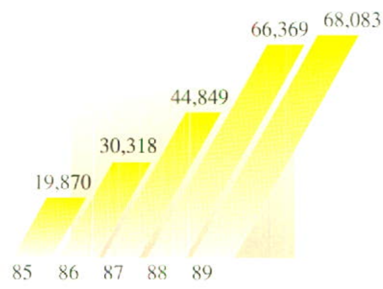
Capital expenditures were $35,400,000 during the year. Of this total, a sum of $16,400,000 was used by the food services and food wholesaling operations to maintain and renew the trucking fleet, to purchase warehousing and data-processing equipment. A sum of $8,000,000 was allocated to the retailing operations of the food sector, including a significant investment at Super Carnaval to open the fourteenth store and to implement the modernization program. Finally, $11,000,000 was allocated to the real estate sector for transactions including the purchase for approximately $3,000,000 of a shopping centre which the Company subsequently disposed of during the same financial year.

Financial Structure

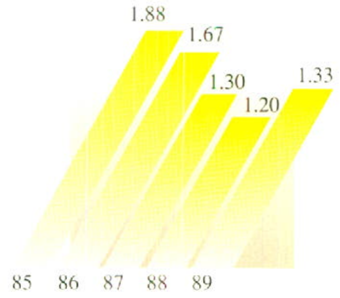
Total assets at year-end amounted to $556,135,000, a reduction of $6,683,000 compared with total assets at the previous year-end. Working capital stands at $22,151,000 or 1.11 as at September 30, 1989, compared with $32,026,000 or 1.16 as at September 24, 1988. The lower figures result principally from the operations discontinued during the year, which necessitated substantial write-offs and provisions for anticipated losses.

The debt-equity ratio moved from 1.20 to 1.33 during the year. This change is attributable to a net increase of $8,870,000 in long-term debt and a net decrease of $8,828,000 in shareholders' equity. During the year, further borrowings of $35,430,000 and repayments of $24,867,000 were made. These new borrowings were used primarily as follows: $12,000,000 for real estate operations, $13,000,000 for capital expenditures and other investments and $10,000,000 to refinance a note.

Earnings from Operations ($000)



Long-Term Debt/ Shareholders' Equity



MANAGEMENT'S REPORT

On the Company's consolidated financial statements

The consolidated financial statements of Métro-Richelieu Inc. and financial information contained in this Annual Report are the responsibility of Management. These consolidated financial statements were prepared according to the accounting principles generally accepted in Canada and were approved by the Board of Directors.

Métro-Richelieu Inc. maintains accounting and administrative control systems which, in the opinion of Management, ensure reasonable accuracy of financial information and well-ordered, efficient management of the Company's affairs.

The Board of Directors discharges its responsibilities for approving the consolidated financial statements included in this Annual Report, principally through its Audit Committee. This Committee, which holds periodic meetings with members of Management, the internal auditor and external auditors, reviewed the consolidated financial statements of Métro-Richelieu Inc. and recommended their approval to the Board of Directors.

The enclosed consolidated financial statements were audited by Mallette, Benoit, Boulanger, Rondeau & Associés, chartered accountants and their report indicates the extent of their audit and their opinion on the consolidated financial statements.

Jacques L. Maltais
President and Chief Executive Officer

L.G. Serge Gadbois, c.a.
Vice-president, Finance

AUDITORS' REPORT

To the Shareholders of Métro-Richelieu Inc.

We have examined the consolidated balance sheet of Métro-Richelieu Inc. as at September 30, 1989 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at September 30, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Mallette, Benoit, Boulanger, Rondeau & Associés

Chartered Accountants
Montreal,
November 17, 1989

CONSOLIDATED STATEMENT OF EARNINGS

year ended september 30, 1989
(in thousands of dollars)

	1989 (53 weeks)	1988 (52 weeks)
SALES	$ 2,301,096	$ 2,147,921
COST OF SALES AND OPERATING EXPENSES	2,233,013	2,081,552
EARNINGS FROM OPERATIONS	68,083	66,369
OTHER ITEMS		
Financial		
Short-term	2,974	2,260
Long-term	23,833	20,849
Depreciation and amortization (note 3)	23,001	21,716
Loss (gain) on disposal of stores	6,117	(3,298)
	55,925	41,527
EARNINGS BEFORE INCOME TAXES	12,158	24,842
INCOME TAXES (note 4)		
Current	5,587	5,984
Deferred	(1,041)	4,908
	4,546	10,892
EARNINGS FROM CONTINUING OPERATIONS	7,612	13,950
LOSSES OF DISCONTINUED OPERATIONS (note 5)	(5,514)	(905)
EARNINGS BEFORE EXTRAORDINARY ITEMS	2,098	13,045
EXTRAORDINARY ITEMS (note 6)	(11,327)	-
NET EARNINGS (NET LOSS)	$ (9,229)	$ 13,045
EARNINGS (LOSS) PER SHARE		
Continuing operations	$ 0.28	$ 0.69
Before extraordinary items	$ (0.03)	$ 0.63
After extraordinary items	$ (0.67)	$ 0.63

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

year ended september 30, 1989
(in thousands of dollars)

	1989 (53 weeks)	1988 (52 weeks)
BALANCE, BEGINNING OF YEAR	$ 25,854	$ 15,119
ADD:		
Net earnings	-	13,045
Transfer of the excess of appraised value of fixed assets over cost	13	13
	25,867	28,177
DEDUCT:		
Net loss	9,229	-
Share issue expenses less income taxes	2	19
Dividends on preferred shares	2,600	2,304
	11,831	2,323
BALANCE, END OF YEAR	$ 14,036	$ 25,854

CONSOLIDATED BALANCE SHEET
september 30, 1989
(in thousands of dollars)

ASSETS	1989	1988
CURRENT ASSETS		
Accounts receivable	$ 97,627	$ 101,246
Inventories	111,587	112,482
Prepaid expenses	6,595	7,294
Current portion of investments (note 7)	4,583	9,217
	220,392	230,239
INVESTMENTS (note 7)	20,733	20,458
FIXED ASSETS (note 8)	149,255	142,428
OTHER ASSETS (note 9)	165,755	169,693
	$ 556,135	$ 562,818

LIABILITIES		
CURRENT LIABILITIES		
Bank loans	$ 45,436	$ 61,013
Accounts payable	139,808	125,291
Income taxes	353	958
Current portion of long-term debt (note 10)	12,644	10,951
	198,241	198,213
LONG-TERM DEBT (note 10)	170,554	161,684
DEFERRED INCOME TAXES	6,905	13,658
CONVERTIBLE DEBENTURES (note 11)	30,000	30,000
SHAREHOLDERS' EQUITY		
Capital stock (note 12)	135,695	132,692
Retained earnings	14,036	25,854
Contributed surplus	157	157
Excess of apparaised value of fixed assets over cost	547	560
	150,435	159,263
	$ 556,135	$ 562,818

On behalf of the board

Marcel R. Guertin

Marcel R. Guertin,
Chairman of the Board

Bernard Bélair

Bernard Bélair,
Treasurer

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
year ended september 30, 1989
(in thousands of dollars)

	1989 (53 weeks)	1988 (52 weeks)
OPERATING ACTIVITIES		
Earnings from continuing operations	$ 7,612	$ 13,950
Depreciation and amortization	23,001	21,716
Loss (gain) on disposal of long-term assets	5,991	(3,158)
Deferred income taxes	(1,041)	4,908
Cash provided from continuing operations	35,563	37,416
Net changes in other items, less items not affecting cash:		
Losses of discontinued operations	(7,247)	(948)
Extraordinary items	(10,130)	-
Other items	19,125	(15,285)
Cash provided from operating activities	37,311	21,183
FINANCING ACTIVITIES		
Issuance of convertible debentures	-	30,000
Increase in long-term debt	35,430	80,184
Repayment of long-term debt	(24,867)	(104,616)
Net changes in minority interest	-	(830)
Issuance and redemption of capital stock	3,001	2,747
Cash provided from financing activities	13,564	7,485
INVESTING ACTIVITIES		
Acquisition of fixed assets	(35,432)	(21,629)
Acquisition of other assets	(7,054)	(18,728)
Disposal of fixed assets and other assets	9,567	12,059
Net change in investments	221	(5,459)
Cash applied to investing activities	(32,698)	(33,757)
DIVIDENDS	(2,600)	(2,304)
CASH INCREASE (DECREASE)	15,577	(7,393)
CASH POSITION, BEGINNING OF YEAR	(61,013)	(53,620)
CASH POSITION, END OF YEAR	$ (45,436)	$ (61,013)

Cash consists of bank loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
september 30, 1989
(Tabular amounts are expressed in thousands of dollars)

1- STATUTES OF INCORPORATION:

The Company is governed by Part IA of the Quebec Companies Act.

2- SUMMARY OF THE PRINCIPAL ACCOUNTING POLICIES:

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of the principal accounting policies used to prepare the consolidated financial statements.

a) Consolidation-

The consolidated financial statements include the accounts of the Company and its subsidiaries, except those of a subsidiary which the Company intends to dispose of.

b) Inventory valuation-

Inventory is valued at lower of cost, determined, on a first in, first out basis, and net realizable value.

c) Acquisitions and disposals of stores-

Acquisitions and disposals of stores form part of the company's normal operations. Gains and losses on disposals of stores and provisions for decrease in value of stores are accounted for when realized.

d) Investments-

Investment in a subsidiary excluded from consolidation is accounted for at its estimated net realizable value. Investments in companies subject to significant influence are accounted for using the equity method. Other investments are accounted for at cost.

e) Fixed assets, leased assets and depreciation-

Fixed assets and leased assets under capital leases are accounted for at cost, except for a land and a building which were appraised in 1968.

Depreciation of fixed assets and leased assets under capital leases are recorded using the straight-line method at the following rates:

Land improvements	$2^1/_2$% to 5%
Buildings	$2^1/_2$%
Machinery and equipment	$2^1/_2$% to 25%
Rolling stock	10% to 25%
Leasehold improvements	term of the leases

f) Other assets and amortization-

Other assets are accounted for at cost.

Amortization is recorded using the straight-line method at the following rates:

Goodwill	$2^1/_2$% to 5%
Leasehold rights	term of the leases
Other	5% to 33 1/3%

g) Excess of appraised value of fixed assets over cost-

The excess is transferred to retained earnings when realized through depreciation or sale of appraised fixed assets.

h) Pension plan-

Pension costs related to current services are charged to earnings for the period during which the services are rendered; past service costs are amortized over the expected average remaining service life of the employes covered by the plans, namely sixteen years. The difference between the pension costs and funding payments is recorded on the balance sheet under "Other assets".

i) Earnings per share-

Earnings per share are calculated using the weighted average number of outstanding Class A subordinate shares and Class B shares, taking into account dividends on first preferred shares, series 1 and second preferred shares.

Fully diluted earnings per share are calculated when potential conversions of shares, debt or debentures and the exercise of rights and warrants would affect significantly earnings per share.

3- EARNINGS:

The consolidated statement of earnings included the following items:

	1989	1988
Depreciation and amortization		
Fixed assets	$ 15,840	$ 14,700
Goodwill	2,854	2,879
Leasehold rights	1,782	1,830
Other	2,525	2,307
	$ 23,001	$ 21,716
Interest in companies subject to significant influence	$ 271	$ (168)

4- INCOME TAXES:

The actual income tax rates of the Company are as follows:

	1989	1988
Statutory income tax rates	34.84%	40.62%
Other	2.55	3.22
	37.39%	43.84%

5- DISCONTINUED OPERATIONS:

At the beginning of August 1989, the Company decided to dispose of its franchising activity in the pharmaceutical products sector under the banner of Cloutier. The Company has disposed of its activity for the most part immediately after the year-end. Losses and provisions for losses due to the disposal of these operations since August 1, 1989 are charged to "Extraordinary item".

Furthermore, in September 1989, the Company has given a mandate to sell its subsidiary, André Lalonde Sports Inc. and, consequently, its accounts were excluded from consolidation. Investment in the subsidiary is accounted for at the estimated net realizable value.

The results of the franchising activity under the banner of Cloutier for the period ended July 31, 1989 and those of André Lalonde Sports Inc. for the year ended September 30, 1989 are shown under "Losses of discontinued operations" and comparative figures for the prior year have been reclassified. Sales from discontinued operations totalize $ 66,958,000 (1988 - $ 52,331,000) and losses of discontinued operations amount to $ 5,514,000, net of a fiscal gain of $ 2,938,000 (1988 - $ 905,000, net of a fiscal gain of $ 508,000).

6- EXTRAORDINARY ITEMS:

	1989	1988
Losses and provisions for losses resulting from discontinuance of franchising activity under the banner of Cloutier, taking into account a fiscal gain of $ 3,013,000	$ (7,987)	$ -
Provision for losses on investment in a subsidiary excluded from consolidation, net of fiscal gain of $ 538,000	(3,340)	-
	$ (11,327)	$ -

7- INVESTMENTS:

	1989	1988
Investment in a subsidiary excluded from consolidation	$ 5,335	$ 7,661
Investments in companies subject to significant influence	12,502	9,070
Loans	3,011	8,119
Other	4,468	4,825
	25,316	29,675
Current portion	4,583	9,217
	$ 20,733	$ 20,458

8- FIXED ASSETS:

	1989			1988
	Cost	Accumulated depreciation	Net value	Net value
Land and land improvements	$ 13,881	$ 332	$ 13,549	$ 7,990
Buildings	65,950	13,181	52,769	50,342
Machinery and equipment	42,067	19,993	22,074	23,195
Rolling stock	32,385	17,248	15,137	13,398
Leasehold improvements	8,193	2,617	5,576	2,966
	162,476	53,371	109,105	97,891
Leased assets under capital leases	60,648	20,498	40,150	44,537
	$ 223,124	$ 73,869	$ 149,255	$ 142,428

9- OTHER ASSETS:

	1989	1988
Goodwill	$ 78,689	$ 86,887
Leasehold rights	65,928	68,306
Other	21,138	14,500
	$ 165,755	$ 169,693

10- LONG-TERM DEBT:

	1989	1988
Loans, secured by mortgages, bearing interest at rates ranging from 11.5% to 13.5%, maturing up to 1995	**$ 17,607**	$ 19,588
Loan, secured by a mortgage and by a commercial pledge, bearing interest at the rate of 13.395%, maturing in 1993	**4,500**	5,500
Notes, bearing interest at rates ranging from 1% below to 1.5% over prime rate and at rates ranging from 9.5% to 10.6%, maturing up to 1996	**37,062**	18,511
Loans, secured by liens on equipment, bearing interest at rates ranging from 9.75% to 14.25%, maturing up to 1996	**6,637**	9,007
Debentures, secured by a floating charge on all assets of the Company under a trust deed, series A and B, bearing interest at the banker's acceptance rate, maturing in 1998	**70,000**	70,000
Loans from shareholder customers, redeemable after five and ten years of their respective instalments, bearing interest at rates ranging from 1% below to 1.5% above the average prime rate, maturing up to 1999	**480**	530
Notes from shareholder customers, without interest, converted quarterly into Class A subordinate shares	**398**	380
Other loans from shareholder customers, without repayment conditions, bearing interest at rates ranging from 1.5% below to 1.5% above the average prime rate and at the rate of 10%	**875**	1,299
Obligations under capital leases, bearing interest at rates ranging from 9.90% to 16.54%, maturing up to 1997	**45,639**	47,820
	183,198	172,635
Current portion	**12,644**	10,951
	$ 170,554	$ 161,684

The Company has a swap facilities contract for an amount of $ 35,000,000 bearing interest at the rate of 9.98% until 1993. Furthermore, on November 9, 1989, the Company has concluded a second swap facilities contract for an amount of $ 35,000,000 bearing interest at the rate of 10.73% until 1994.

10- LONG-TERM DEBT: (continued)

Capital repayments of the long-term debt, payable during the next five years, and minimum payments under capital leases are as follows, assuming that loans subject to renewal are renewed under the same conditions:

Long-term debt		
1989-90	-	$ 7,133
1990-91	-	$ 10,085
1991-92	-	$ 7,015
1992-93	-	$ 7,461
1993-94	-	$ 6,487

Capital leases		
1989-90	-	$ 10,453
1990-91	-	10,224
1991-92	-	10,032
1992-93	-	7,964
1993 and following	-	28,000
		66,673
Less interest included in instalments		21,034
		$ 45,639

11- CONVERTIBLE DEBENTURES:

Since September 22, 1988, the Company has outstanding unsecured convertible debentures in the amount of $ 30,000,000 at the rate of 9.5%, repayable September 22, 1998. The debentures are convertible at any time at the holder's request by blocks of $ 7,500,000 into first preferred shares, series 2 or into participating shares of the Company's capital stock at a price of $ 7.25 per share and are retractable by the Company under certain conditions from September 22, 1991.

12- CAPITAL STOCK:

Authorized:

Unlimited number of first preferred shares, non-voting, without par value, issuable in series:

- series 1, convertible into Class A subordinate shares at a price of $ 13.80, redeemable at $ 1,000 per share, cumulative dividend equal to 50% of the prime rate plus 1 3/4% up to a maximum of 8%

- series 2, convertible into an equal number of participating Class A subordinate shares, redeemable, dividend at the same rate as Class A subordinate shares and Class B shares

12,000 second non-voting preferred shares, cumulative dividend of 75% of bank prime rate plus 1 1/2%, redeemable, with a par value of $ 100 each

Unlimited number of Class A subordinate shares, bearing one voting right per share, convertible into Class B shares in the case of a takeover bid for Class B shares, without par value

Unlimited number of Class B shares, bearing twenty voting rights per share, without par value

		1989	1988
Issued:			
32,500	first preferred shares, series 1	**$ 32,500**	$ 32,500
3,661	second preferred shares (1988 - 3,899)	**366**	390
16,740,495	Class A subordinate shares (1988 - 16,031,749)	**99,254**	96,185
1,112,460	Class B shares (1988 - 1,164,920)	**3,575**	3,617
		$ 135,695	$ 132,692

12- CAPITAL STOCK: (continued)

The change in capital stock is summarized as follows:

		1989 Number of shares	1989 Amount	1988 Number of shares	1988 Amount
Issuance of capital stock:	Class A subordinate shares	**567,186**	**$ 2,620**	373,809	$ 2,257
	Class B shares	**89,100**	**$ 407**	97,200	$ 556
Redemption of shares:	Second preferred shares	**238**	**$ 24**	1,991	$ 200
Conversion of shares:	Class B shares converted into Class A subordinate shares	**141,560**	**$ 449**	212,320	$ 639
	3,415 second preferred shares converted into Class A subordinate shares	**-**	**$ -**	56,427	$ 341

The Company has outstanding notes convertible until December 31, 1990 into a total of 200,000 Class A subordinate shares for a consideration of $ 2,000,000 and 300,000 warrants entitling their holders to purchase, until December 31, 1990, 300,000 Class A subordinate shares at a price of $ 10 per share.

The Company has granted Class A subordinate share options to certain officers, entitling them to subscribe for 527,742 shares at a price ranging from $ 4.48 to $ 6.125 per share until March 21, 1994.

13- PENSION PLANS:

As of September 30, 1989, the actuarial value of pension benefits amounts to $ 6,900,000 and the assets of the pension fund at market value totalize $ 4,583,200.

14- CONTINGENT LIABILITIES:

For certain of its shareholder customers and other firms with which business relationships are established:

- The Company assumes a contingent liability as endorser of lease contracts having varying terms and maturing from 1997 to 2000. The annual minimum lease payments, excluding escalator clauses, amount to $ 390,045. The contingent liability under those endorsements as of September 30, 1989 is $ 3,634,000.

- The Company has endorsed loans granted by financial institutions for a maximum amount of $ 5,575,000.

- The Company has a limited contingent liability as guarantor of conditional sales contracts. As at September 30, 1989, the outstanding contracts amounted to $ 6,243,000, representing the capital balance of the contracts.

As at September 30, 1989, various claims, amounting to $ 4,925,000, have been filed against the Company. Company's management contests the validity of these claims and it is the opinion of Management that the settlement of these claims would not have a significant affect on the financial position of the Company. Any losses resulting from these litigations would be treated as a prior year's adjustment.

As a result of its interest in a partnership, the Company has undertaken to provide funds necessary for the operations, if required.

15- CONTRACTUAL OBLIGATIONS:

The Company has undertaken to rent certain premises under leases with varying terms extending up to the year 2007 for annual minimum payments totalling $ 11,207,000. The balance of these commitments as at September 30, 1989 amounts to $ 137,333,000.

Under lease agreements and lease offers with varying terms extending until 2010, the Company has undertaken to rent premises for minimum annual payments totalling $ 14,444,000. The balance of these commitments as at September 30, 1989, excluding escalator clauses, amounts to $ 195,039,000.

In return, the Company sublets these premises under the same terms and conditions and for the same considerations as in the above-mentioned lease agreements and lease offers.

The Company has undertaken, under a business agreement, to pay during the next three years an aggregate amount of about $ 800,000. This agreement concerns site developments and a contribution for rental payments with respect to retail food outlets.

In accordance with acquisition contracts of investments and other assets, the Company may be called upon to make additional payments up to a maximum amount of $ 1,193,000, should certain conditions be met.

16- RELATED PARTY TRANSACTIONS:

In the normal course of business, the Company concludes transactions with related parties under the same conditions as transactions with unrelated parties.

During the year, sales made to enterprises controlled by members of the Board of Directors amounted to $ 197,311,000 (1988 - $ 150,348,000) and sales made to companies subject to significant influence amounted to $ 48,613,000 (1988 - $ 42,503,000).

The Company's commercial policies with its customers include, among other, discounts, fidelity premiums and various commercial programs. Costs incurred by the Company totalled $ 4,484,000 (1988 - $ 2,748,000) for enterprises controlled by members of the Board of Directors and $ 1,587,000 (1988 - $ 1,063,000) for companies subject to significant influence.

During the year, the Company has sold corporate stores by call for tender. Certain transactions were made with enterprises controlled by members of the Board of Directors. Proceeds from the sale of these businesses were of $ 2,028,000 (1988 - nil).

Total accounts receivable from enterprises controlled by members of the Board of Directors amounted to $ 6,894,000 (1988 - $ 3,236,000) and $ 1,726,000 (1988 -$ 1,098,000) for companies subject to significant influence.

17- COMPARATIVE FIGURES:

Certain comparative figures have been reclassified to conform with the presentation used in the current year.

FINANCIAL RETROSPECTIVE
UNAUDITED

SUMMARY OF EARNINGS ($ 000)	1989	1988	1987	1986	1985
Sales	2,301,096	2,147,921	1,915,417	1,659,413	1,389,704
Earnings from operations	68,083	66,369	44,849	30,318	19,870
Depreciation	23,001	21,716	14,604	9,409	8,745
Interest	26,807	23,109	14,308	11,015	13,873
Unusual item	6,117	(3,298)			
Income taxes	4,546	10,892	7,200	3,913	(1,682)
Earnings from continuing operations	7,612	13,950			
Earnings before extraordinary items	2,098	13,045	8,737	5,981	(1,066)
Net earnings	(9,229)	13,045	10,023	5,981	(417)
CHANGES IN FINANCIAL POSITION ($ 000)					
Funds derived from operations	35,563	37,416	26,241	19,546	5,856
Capital expenditures	35,432	21,629	* 14,975	16,566	9,197
FINANCIAL STRUCTURE ($ 000)					
Working capital	22,151	32,026	24,682	19,783	7,305
Current assets	220,392	230,239	213,322	153,686	143,567
Current liabilities	198,241	198,213	188,640	133,903	136,262
Fixed assets	149,255	142,428	142,668	91,404	84,456
Total assets	556,135	562,818	533,165	257,533	234,835
Long-term debt	200,554	191,684	188,968	73,945	63,251
Shareholders' equity	150,435	159,263	145,775	44,404	33,624
FINANCIAL RATIOS					
Earnings from operations/sales	2.96%	3.09%	2.34%	1.83%	1.43%
Earnings from continuing operations/sales	0.33%	0.65%			
Earnings before extraordinary items/sales	0.09%	0.61%	0.46%	0.36%	(0.08%)
Net earnings /sales	(0.40%)	0.61%	0.52%	0.36%	(0.03%)
Cash flow/sales **	1.55%	1.74%	1.37%	1.18%	0.42%
Return on shareholders' equity **	3.9%	10.2%	12.3%	18.0%	N/A
Long-term debt/shareholders' equity	1.33	1.20	1.30	1.67	1.88
Working capital	1.11	1.16	1.13	1.15	1.05
Interest coverage **	1.45	2.07	2.11	1.90	0.80
COMMON SHARE					
Earnings					
continuing operations	$ 0.28	$ 0.69			
before extraordinary items	($ 0.03)	$ 0.63	$ 0.58	$ 0.73	($ 0.53)
after extraordinary items	($ 0.67)	$ 0.63	$ 0.67	$ 0.73	($ 0.34)
Cash flow **	$ 1.87	$ 2.08	$ 1.87	$ 2,43	N/A
Number of shares outstanding at year end	17,852,955	17,196,669	16,669,233	9,112,560	N/A
Weighted number of shares	17,581,798	16,917,113	13,676,276	7,997,840	N/A
Book value	$ 6.58	$ 7.35	$ 6.75	$ 4.76	N/A
Quoted market price					
High	$ 5.25	$ 8 7/8	$ 13,25	N/A	N/A
Low	$ 3.80	$ 4.60	$ 6 1/8	N/A	N/A
Volume of transactions	2,651,815	2,322,925	5,631,990	N/A	N/A

* Excluding capital expenditures from acquisitions, in the amount of $ 52,342,000.

** Calculated upon continuing operations

SECTORS	SUBSIDIARIES	DIVISIONS	BANNERS
FOOD	ÉPICIERS UNIS MÉTRO-RICHELIEU INC.	Food Wholesaling Sector • Grocery • Produce • Meat & Frozen Produce • Pêcheries Atlantiques du Québec	• Métro • Marché Richelieu • Ami • Gem
		Food Services Sector • Éconogros • Distagro Ltée • Service Alimentaire de Québec Inc.	
	LA FERME CARNAVAL INC.		• Super Carnaval
DRUG	McMAHON-ESSAIM INC.		• Cloutier • Essaim • Brunet • Clini +
OTHER	ANDRÉ LALONDE SPORTS INC.		• André Lalonde Sports
	RESTAURANTS GIORGIO (AMÉRIQUE) LTÉE (50%)		• Giorgio • Giorgio Express • Steak Frites
	DÉLICANA NORD-OUEST INC. (50%)		
	GESTION DE TEXTILE LAVERDURE INC. (40%)		
	ALIMENTATION COUCHE-TARD INC. (20%)		• Couche-Tard • Sept-Jours
	LES NORDIQUES DE QUÉBEC 1988, SOCIÉTÉ EN COMMANDITE (18%)		

Board of Directors

From left to right: Réal Brouillette, Aimé Gagnon, Marcel R. Guertin, Bernard Bélair, Jean-Claude Messier, Maurice Jodoin, Gabriel Verreault, Roland Ferland, Claude Castonguay, James S. Parsons, Michel Nadeau, Roger Lévesque, Jacques Laliberté, Benoît Gadoury, Pierre Shooner.

• **Marcel R. Guertin**
Chairman of the Board

• **Aimé Gagnon**
Vice Chairman of the Board

• **Jean-Claude Messier**
Secretary

• **Bernard Bélair**
Treasurer

• **Réal Brouillette**
Director

Claude Castonguay
Director

° **Roland Ferland**
Director

◊ **Benoît Gadoury**
Director

° **Maurice Jodoin**
Director

◊ **Jacques Laliberté**
Director

* **Roger Lévesque**
Director

* **Michel Nadeau**
Director

James S. Parsons
Director

* **Pierre Shooner**
Director

° **Gabriel Verreault**
Director

• Member of the Executive Committee
° Member of the Audit Committee
◊ Member of the Marketing Committee
* Member of the Human Resources Committee

Management

Métro-Richelieu inc.

Jacques L. Maltais
President and Chief Executive Officer

Réjean Bouchard
Assistant to the President

L.G. Serge Gadbois
Vice President, Finance

Denise Martin
Vice President, Information Systems

Jacques Obry
President and Chief Operating Officer
Épiciers Unis Métro-Richelieu inc.

Guy Piuze
Vice President, Human Resources

André Roy
Vice President, Administration

Charles Roy
Vice President, Planning and Corporate Development

Épiciers Unis Métro-Richelieu inc.

Jacques Obry
President and Chief Operating Officer

Alain Brisebois
Vice President, Grocery

Marc Cassidy
Vice President, Eastern Québec

Paul Laporte
Vice President, Distribution

Robert Sawyer
Vice President, Produce

Réjean Nadeau
Vice President, Éconogros and Food Services

Lawrence Timmons
Vice President, Meat and Frozen Products

Société immobilière Devimont inc.

Claude Brunetta
Vice President, Expansion and Real Estate Development

Transfer Officer and Registrar:
Montreal Trust

Bankers:
National Bank of Canada
The Royal Bank of Canada
Caisse centrale Desjardins du Québec

Securities listed on the Montréal Stock Exchange:
Class A Subordinate Shares
Share symbol: **MRU, A**

Auditors:
Mallette, Benoit, Boulanger, Rondeau & Associés
Chartered Accountants

Les actionnaires peuvent se procurer la version française de ce rapport en s'adressant au service des finances
Métro-Richelieu Inc.
Siège social
11011, boul. Maurice-Duplessis
Montréal, Québec H1C 1V6
(514) 643-1000 (poste 2172)

Annual Meeting:
The annual shareholders' meeting will be held on
January 29, 1990 at 11:00 a.m.
at the Hôtel des Gouverneurs
"Le Grand"
777 University St., in Montréal

METRO-RICHELIEU